

Message Text

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PAGE 01 BRUSSE 13036 01 OF 02 292104Z
ACTION SS-25

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O 292039Z SEP 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC IMMEDIATE 2161
INFO USMISSION GENEVA IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 13036

EXDIS

PASS ELECTRONICALLY STR FOR AMBASSADOR STRAUSS
GENEVA FOR USMTN AMBASSADOR MCDONALD

EO 11652: XGDS-L
TAGS: EEC, ETR
SUBJECT: STRAUSS LETTER TO HAFERKAMP RE TARIFF FORMULA

1. I DELIVERED STRAUSS LETTER TO HAFERKAMP
LATE SEPTEMBER 29. DENMAN, FROSCHMAIER AND DCM MORRIS ALSO
PRESENT. AFTER READING LETTER, HAFERKAMP SAID HE WOULD WANT
GERMAN TRANSLATION AND ASKED DENMAN TO COMMENT.

2. DENMAN SAID HE COULD NOT UNDERSTAND WHY THIS MISUNDER-
STANDING HAS ARISEN ON SUCH SHORT NOTICE. DENMAN RECALLED
THAT, IN HIS SUMMING UP OF AGREEMENT AT JENKINS' LUNCH FOR
STRAUSS ON SEPTEMBER 22, HE HAD NOTED THAT THE STAGING
CONCEPT OFFERED TWO MAJOR ADVANTAGES: FIRST, MORE FLEX-
IBILITY THAN IN KENNEDY ROUND AND, SECOND, THAT ONE EXAMPLE
OF CONDITIONS WHICH MIGHT BE FACTORED INTO OUR THINKING WAS
POSSIBILITY OF A FIRM COMMITMENT TO FIRST SET OF REDUCTIONS
OVER FIVE YEAR PERIOD AND A SECOND SET TO BE IMPLEMENTED
AS A FUNCTION OF ECONOMIC CIRCUMSTANCES.

3. DENMAN SAID HE THEN HAD MADE ESSENTIALLY THE SAME
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PRESENTATION NO LESS THAN THREE TIMES IN GENEVA, EACH TIME
IN THE PRESENCE OF EITHER WOLFF, MCDONALD, OR BOTH. ON
EACH OCCASION, HE HAD CITED THAT A CONDITION MIGHT BE A
FIXED PERIOD AND AN OPTIONAL PERIOD. ON NONE OF THESE
OCCASIONS HAD ANY OBJECTION BEEN VOICED FROM THE AMERICAN
SIDE. HE CONCLUDED THAT "WHEN WE HAVE AN AGREEMENT WHICH
HAS BEEN REPEATED ON SEVERAL OCCASIONS AND NO ONE SAYS IT

IS SUSPECT OR WRONG, TO SAY THAT THERE IS A MISUNDERSTANDING NOW IS JUST NOT PLAUSIBLE."

4. I SAID THAT REGARDLESS OF VALIDITY OF DENMAN'S REMARKS, MY RECOLLECTION WAS THAT, AT THE LUNCH, THERE WAS NO STRESS PUT ON THE FIXED/OPTIONAL FORMULA NOR WAS IT IMPLIED THAT THIS WAS EITHER THE ONLY OR EVEN MOST IMPORTANT EXAMPLE OF A CONDITION THAT MIGHT BE ATTACHED TO THE FORMULA. HAD THIS POINT BEEN NOTED, STRAUSS WOULD HAVE OBJECTED AS I WOULD HAVE. I ALSO REMINDED DENMAN THAT, AT THE END OF THE MORNING MEETING ON SEPTEMBER 22 BEFORE WE ADJOURNED TO LUNCH, AMBASSADOR STRAUSS HAD REJECTED THAT EXPRESSION OF THE WAY THE FORMULA MIGHT BE IMPLEMENTED AND THAT HAFERKAMP HAD AGREED IT WAS NOT DESIRABLE TO DEAL WITH POSSIBLE CONDITIONS AT THIS STAGE. MOREOVER AT LUNCH WE ALL EXPECTED AN AGREED MINUTE TO BE WORKED OUT. AS FOR GENEVA, NOT HAVING BEEN THERE, I COULD NOT SAY WHAT HAD BEEN SAID AND NOT SAID, BUT IN ANY CASE IT HAD BECOME QUITE CLEAR TO STRAUSS BY THE BEGINNING OF THIS WEEK THAT UNWARRANTED STRESS WAS BEING PUT ON THE EXAMPLE OF THE CONDITIONAL APPROACH THAT DENMAN WAS USING. IN FACT, THAT IS WHY STRAUSS HAD ASKED MCDONALD TO SEE DANMAN YESTERDAY IN AN EFFORT TO TRY TO WORK THE PROBLEM OUT. THE LETTER I HAD JUST DELIVERED MADE STRAUSS' PERSONAL CONCERN CLEAR.

5. HAFERKAMP SAID HE WOULD GIVE ME A WRITTEN REPLY TO CONFIDENTIAL

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THE LETTER (PROBABLY IN GERMAN) EARLY SEPTEMBER 30. HE SAID HE KEENLY FELT THE NECESSITY TO USE THIS OCCASION TO DISSPELL ANY MISUNDERSTANDINGS BETWEEN US. HE STRESSED THAT WE CAN NOT AFFORD ANY MISUNDERSTANDINGS BECAUSE WHAT WE ARE DOING IS TOO IMPORTANT.

6. HAFERKAMP WENT ON TO STRESS THAT IT WAS VERY IMPORTANT THAT OUR EXCHANGE ON THIS MATTER NOT BE MADE PUBLIC. HE SAID THAT STRAUSS' MENTION OF 44 PERCENT TARGET CUT IN PUBLIC HAD CREATED A SUBSTANTIAL PROBLEM FOR THE COMMISSION VIS-A-VIS MEMBER STATES. THUS, HE HOPED THAT WE COULD FOREGO FURTHER PUBLIC STATEMENTS ON THIS MATTER FOR THE TIME BEING. HE FELT THAT WE MUST SEEK AN UNDERSTANDING WHICH COMBINES OUR LONG-TERM OBJECTIVE WITH THE REALITY OF POSSIBLE DIFFICULTIES THAT WE MAY FACE OVER THE SHORT TERM.

7. I SAID THAT I THOUGHT THE IMPORTANT POINT FOR STRAUSS WAS TO HAVE A FIRM COMMITMENT - A GOAL - TO THE OBJECTIVE OF A CUT IN THE 40-45 PERCENT RANGE. WHILE I PERSONALLY ACCEPTED DENMAN'S OBSERVATION THAT HE MUST NOW TALK OF CONDITIONS TO WIN MEMBER STATE ACQUIESCENCE, I THOUGHT

HARMONIZATION AND TEN-YEAR STAGING SHOULD TAKE CARE OF MOST OF THE EC'S PROBLEMS. THUS I HOPED THAT THE COMMISSION WOULD NOT DIG ITSELF IN TO SPECIFIC COMMITMENTS TO THE MEMBER STATES RE CONDITIONS AND CERTAINLY AVOID LOCKING ON FIXED AND OPTIONAL IMPLEMENTATION PHASES.

8. I NOTED THAT STRAUSS' LETTER ENVISAGED THE POSSIBILITY OF FURTHER DISCUSSIONS AT THE TIME WE REACH THE FINAL NEGOTIATION STAGE REGARDING TIMETABLE OR CONDITIONS FOR

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INFO USMISSION GENEVA IMMEDIATE

C O N F I D E N T I A L SECTION 02 OF 02 BRUSSELS 13036

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IMPLEMENTATION AND STRESSED THAT, IN MY VIEW, THIS IS NOT THE TIME TO FIX AN EC NEGOTIATING POSITION ON THESE MATTERS IN CONCRETE.

9. HAFERKAMP SAID THAT, FROM COMMISSION POINT OF VIEW, IT WAS MAINLY A QUESTION OF HOW TO SELL THE SWISS FORMULA AS A WORKING HYPOTHESIS TO THE MEMBER STATES WITHOUT FORCING A CRISIS IN THE NEGOTIATION AT THIS STAGE. HE FELT THAT WE DID NOT HAVE A FUNDAMENTAL DIFFERENCE IN OUR OBJECTIVE BUT CONDITIONS COULD NOT BE RULED OUT. I REPEATED THAT, IN SELLING THE WORKING HYPOTHESIS TO THE MEMBER STATES, I BELIEVED THE COMMISSION COULD TAKE CONSIDERABLE CREDIT FOR HAVING PERSUADED THE US TO ACCEPT A SIGNIFICANT DEGREE OF TARIFF HARMONIZATION. THE COMMISSION COULD ALSO TAKE CREDIT FOR HAVING ACHIEVED AGREEMENT TO STAGING OVER A PERIOD OF UP TO TEN YEARS. FURTHER, IT WAS OBVIOUS THAT IF THERE IS A TOTAL ECONOMIC COLLAPSE DURING THIS TIME, WE WOULD ALL GO BACK TO THE DRAWING BOARD. BUT IN EXCHANGE FOR THIS, WE NEED, AND THOUGHT WE HAD AGREED ON, A SUBSTANTIAL CUT. EMPHASIS SHOULD BE PUT ON ACHIEVING THIS GOAL AND NOT, AT THIS STAGE, ON THE

CONDITIONS THAT WOULD BE REQUIRED TO ACHIEVE IT. ALL OF THESE ELEMENTS WILL OF COURSE HAVE TO BE REVIEWED WHEN WE GET TO THE FINAL STAGES OF THE NEGOTIATION BUT I URGED THAT WE LEAVE OUR OPTIONS OPEN UP TO THAT TIME.

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10. HAFERKAMP SAID HE WOULD GIVE ME A CONSIDERED REPLY TOMORROW MORNING.

11. EARLIER IN DAY, DURING A MEETING WITH A HOUSE WAYS AND MEANS COMMITTEE STAFFER AND A MISSION OFFICER (MCCARTHY), RAYMOND PHAN VAN PHI DISCUSSED THE QUESTION OF CONDITIONALITY IN TARIFF REDUCTIONS. PHAN VAN PHI MAINTAINED THAT THE EUROPEAN PARTICIPANTS IN THE STRAUSS VISIT LEFT WITH THE IMPRESSION THAT WE HAD AGREED TO CONDITIONALITY. MISSION OFFICER REPLIED THAT CONDITIONALITY HAD BEEN MENTIONED BY US SIDE AS A POSSIBLE COMPONENT OF LONG TERM STAGING BUT NOT THE ONLY OR EVEN A NECESSARY ONE. MISSION OFFICER POINTED OUT THAT HAFERKAMP APPEARED TO RECOGNIZE THAT BOTH SIDES HAD FAILED TO AGREE ON THIS POINT WHEN HE SUGGESTED THAT WE LIMIT THE RESULTS OF THE STRAUSS VISIT TO POSITIVE POINTS AND DELAY UNAGREED AREAS TO THE END OF THE NEGOTIATION.

12. BE THAT AS IT MAY, PHAN VAN PHI SAID THAT THE COMMISSION MUST INCLUDE CONDITIONALITY AS AN ELEMENT IN THE TARIFF HYPOTHESIS IN DISCUSSIONS WITH THE MEMBER STATES. IT WILL NOT BE NECESSARY TO DESCRIBE PRECISELY WHAT CONDITIONS MIGHT BE USED (HE MENTIONED ANYTHING FROM A SIMPLE GNP FACTOR TO MORE COMPLEX EQUATIONS INCLUDING INFLATION AND UNEMPLOYMENT). WHAT IS CLEAR TO THE COMMISSION IS THAT IT MUST BEGIN NOW DISCUSSIONS ON CONDITIONALITY WITH THE MEMBER STATES OR A FORTY PERCENT TARIFF CUT WILL NOT BE ACCEPTED. PHAN VAN PHI STATED CLEARLY THAT NO DECISION NEEDS TO BE MADE ON WHAT THE CONDITIONS WOULD BE AND ON HOW THEY WOULD BE BROUGHT INTO PLAY UNTIL THE END OF THE NEGOTIATION.

13. IN YET ANOTHER CONVERSATION SEP 29, THE BRITISH COMMER-

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CIAL COUNCELLOR DAVID ELLIOT STATED THAT WITH RESPECT TO THE TARIFF FORMULA, THE CONDITIONS FOR IMPLEMENTATION OF THE SECOND STAGE OF THE "25-15" CUT WOULD BE "TERRIBLY IMPORTANT" FOR BRITAIN. MISSION OFFICER (NELSON) REPLIED

THAT THE POSSIBILITY OF SOME SORT OF CONDITIONALITY IS ONE OF THE OPTIONS THAT MIGHT BE CONSIDERED WHEN THE TOTAL PACKAGE IS DISCUSSED DURING THE FINAL STAGES OF NEGOTIATIONS. HE ASKED ELLIOT IF THIS WERE ALSO HIS UNDERSTANDING. ELLIOT REPLIED IT WILL NOT BE NECESSARY TO AGREE ON PRECISE CONDITIONS AT THIS STAGE, BUT THAT IT WOULD BE NECESSARY TO INDICATE TO BRITISH INDUSTRY THAT THE "SECOND STAGE" WOULD BE SUBJECT TO CONDITIONS IN ORDER TO SELL THE IDEA. HINTON

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